



# **Weatherization Assistance Program Audit Report**

Issued by the  
Internal Audit Office  
January 25, 2011

### *EXECUTIVE SUMMARY*

The Internal Audit Office has concluded its audit of the Weatherization Assistance Program (WAP) for the City of El Paso. We identified internal control weaknesses that are of a significant nature within the record keeping component which may have an adverse impact on the program as a whole. Based on the results of the audit, six findings were identified to indicate that improvements are needed in the record keeping area in order to correct the internal control deficiencies. Listed below is a summary of these findings.

1. Within the application process our review identified 29 out of 41 project files (70.73%) that received a “pass” score and the remaining 12 files (29.27%) received a “fail” score
2. A review of the assessment process identified 29 out of 41 project files (70.73%) which received a “pass” score and the remaining 12 files (29.27%) received a “fail” score.
3. 41 files reviewed were not in compliance with the requirements of Section 13.A of the Grant Agreement. The Grant Agreement states that record keeping must comply with Title 10 C.F.R. §440.24. Of the 41 files reviewed 32 (78.05%) files had exceptions with either the inspection reports, permits, or both.
4. Our review of the approval process which includes approval of work orders identified that four out of 41 project files (9.76%) received a “pass” score and the remaining 37 files (90.24%) received a “fail” score.
5. Within the payment process our review identified that four out of 41 project files (9.76%) received a “pass” score and the remaining 37 files (90.24%) received a “fail” score.
6. Identified 18 projects with the payments to the contractors of over \$6,500.00. We reviewed five (27.78%) of the 18 project files and identified the following issues,
  - The five projects violated the \$6,500.00 WAP limitation.
  - The costs identified as Health and Safety were insufficient to justify the projects exceeding the \$6,500.00 WAP limitation. We identified \$410.00 in expenditures listed as Health and Safety charges.
  - All five projects contained inappropriate Work Orders which were either blank or not properly completed.
  - All five project’s invoices contained Building Permit charges submitted by the contractor. These permit fees were waived by El Paso Municipal Code 18.02.103.7.1 – Prescribed Fees. While fees are waived Inspections are still required.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

### ***BACKGROUND***

The City of El Paso's Weatherization Assistance Program is a federally-funded grant program that is administered through the Texas Department of Housing and Community Affairs (TDHCA) as the cognizant agency. The Weatherization Assistance Program funds are designed to assist eligible households within the City of El Paso to lower their energy consumption and energy costs.

This grant is listed under Contract Number 16090000704 of the American Recovery and Reinvestment Act (ARRA) (CFDA# 81.042). The term of the grant is September 1, 2009 to August 31, 2011 for the amount of \$8,020,066. The City of El Paso's Weatherization Assistance Program is administered through the Department of Community and Human Development (DCHD).

### ***AUDIT OBJECTIVES***

The objectives of this audit were to:

1. Conduct audit work related to the City of El Paso's Weatherization Assistance Program to ascertain compliance with the requirements of the program.
2. Determine if the procedures used by the Department of Community and Human Development are consistent with the City of El Paso policies and procedures.
3. Determine if the City of El Paso Weatherization Assistance Program is operating in a control conscious environment.
  - An adequate level of internal control awareness,
  - Proper separation of duties,
  - Existence of a proper monitoring system,
  - Appropriate authorization / approval of expenditures,
  - Adequate safeguarding of financial, physical, and information assets.

### ***AUDIT SCOPE***

This was a limited scope audit. The time period covered was from September 1, 2009 through November 17, 2010.



### ***AUDIT METHODOLOGY***

To achieve our audit objectives we:

- We obtained an understanding of the documentation requirements of Contract Number 16090000704 of the American Recovery and Reinvestment Act (ARRA) (CFDA# 81.042),
- Gained an understanding of the State of Texas and Federal WAP requirements,
- We obtained an understanding of the Weatherization Assistance Program as administered by the City of El Paso's Department of Community and Human Development,
- We also conducted an assessment of the Internal Control Environment,
- Conducted interviews of Weatherization Assistance Management,
- We identified documentation criteria that should be included in the project files,
- We selected a sample of 41 out of 519 payments, issued as of November 17, 2010, along with their corresponding project files,
- Performed tests of the 41 project files to include reviews of invoices, work orders, assessment forms, inspection reports and other supporting documentation,
- We documented and summarized our results.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* by the Institute of Internal Auditors.

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,  
AND MANAGEMENT'S RESPONSES***

The definition of a significant finding is one that has a material effect on the City of El Paso's financial statements, identifies an internal control breakdown, is a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an "Other Finding."

**Finding 1**

**Application Process**

As required by the Texas Department of Housing and Community Affairs (TDHCA) Contract Number 16090000704 section 13.A Record Keeping Requirements which states, "Subrecipient shall comply with the record keeping requirements set forth at 10 C.F.R. §440.24 and with additional record keeping requirements as specified by Department."

Our review identified 29 out of 41 (70.73%) project files that received a "pass" score and the remaining 12 files (29.27%) received a "fail" score with regards to record keeping requirements.

	Count	%
Pass	29	70.73%
Fail	12	29.27%
Total	41	100.00%

There were several discrepancies identified in each project file that contributed to the calculated score. A listing of the major discrepancies identified is presented below.

Number	Description	Instances
1.	Project files indicated the recipient was disabled, but no supporting documentation was included in the project file.	21
2.	Project files either did not include Landlord Agreement Forms or the agreement forms were not signed by the owner/agent in instances where the program recipient was not the owner of the property.	18
3.	Project files that contained Income Verification Forms were missing approval signatures or did not have complete information.	17
4.	Project files contained a Household Eligibility Priority Points worksheet that was incomplete and missing data.	17
5.	Project files did not contain a Household Eligibility Priority Points worksheet.	14
6.	Project files did not have an Income Verification Form.	13



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Number	Description	Instances
7.	Project files did not contain a completed Customer Billing/Consumption Release Form.	13
8.	Project files did not contain a copy of an identification form for each household member. One of the 11 project files contained an expired copy of the recipient's driver's license.	11
9.	Project files did not contain a Release Worksheet.	9
10.	Project files did not contain a Zero Income Verification form where applicable.	9
11.	Project files did not contain a current Texas Gas Service bill. One out of seven project files contained a Texas Gas Service bill where the account address could not be verified.	7
12.	Project files did not contain a current El Paso Electric bill.	3
13.	Project file contained a copy of the recipient's driver's license whose address did not match the address of the property receiving weatherization assistance.	1
14.	Project file did not contain any support documentation for the Application Process.	1
15.	Project file was completely empty and did not contain any support documentation.	1
16.	Project file contained an Electric Bill that had a different account name than the weatherization recipient's name.	1

**Recommendation**

Management should implement internal controls to ensure intake procedures are performed in accordance with the Grant Requirements and the City of El Paso's Weatherization Assistance Program Intake procedures.

**Management's Response**

Management implemented detailed intake procedures in October and is following this up with a client file checklist that will be signed and dated by each responsible team member throughout the Intake and Weatherization process.

Management is preparing to recruit an internal quality/compliance coordinator to perform quality audits on files as well as handle compliance with historic commission and Davis Bacon requirements.

**Responsible Party**

Jane Tomchik, Weatherization Coordinator

**Implementation Date**

Procedures were implemented in October; client file checklist to be implemented by March 1, 2011.

Job description is under review by Human Resources. Recruitment should begin by February 21, 2011.

## **Finding 2**

### **Assessment Process**

As required by the Texas Department of Housing and Community Affairs (TDHCA) Contract Number 16090000704 sections 13.A and 13.F Record Keeping Requirements which states,

- 13.A. Subrecipient shall comply with the record keeping requirements set forth at 10 C.F.R. §440.24 and with additional record keeping requirements as specified by Department.
- 13.F. All subrecipients must conduct a full household assessment addressing all possible allowable weatherization measures.

Our review identified 29 out of 41 (70.73%) project files which received a “pass” score and the remaining 12 files (29.27%) received a “fail” score.

	Count	%
Pass	29	70.73%
Fail	12	29.27%
Total	41	100.00%

There were two discrepancies identified in each project file that contributed to the calculated score. A listing of the two discrepancies identified is presented below.

Description	Instances
12 files did not have an assessment form in the file.	12
Six of these 12 files had handwritten assessments and we could not determine which projects these forms belonged to.	6

### **Recommendation**

Management should implement internal controls to ensure assessment forms are obtained and are properly completed in accordance with the Grant Requirements.



**Management's Response**

Management implemented detailed procedures for initial assessments and audits in October. These are being updated to reflect recent requirements and all work orders and client file documentation of assessments will be reviewed according to a work order review checklist before they are approved.

**Responsible Party**

Jane Tomchik, Weatherization Coordinator

**Implementation Date**

Detailed procedures were implemented in October. In December, the TDHCA approved Data Collection form replaced the Assessment Form. The work order review checklist will be implemented by February 22, 2011.

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**Finding 3**

**Inspection Process**

As required by the Texas Department of Housing and Community Affairs (TDHCA) Contract Number 16090000704 section 13.A Record Keeping Requirements which states, "Subrecipient shall comply with the record keeping requirements set forth at 10 C.F.R. §440.24 and with additional record keeping requirements as specified by Department."

32 out of 41 (78.05%) files reviewed had exceptions with either the inspection reports, permits or both.

	Count	%
Pass	9	21.95%
Fail	32	78.05%
Total	41	100.00%

The following table summarizes results of testing related to our review of the Inspection process:

Exceptions	# of Files
Included an Inspection Report but missing required permit. Accela database contained grouped permits; therefore it was difficult to determine which permit applies to each project.	15
Six projects were grouped into one file that included one handwritten Inspection Report and one permit. We were unable to determine which project the Inspection Report and permit pertained to.	6
Included an Inspection Report. Permits were not included in the file and not located in the Accela database.	4
Missing an Inspection Report. Permits were not included in the file, but were located in the Accela database.	2
Missing an Inspection Report and did not require a permit.	2
Missing an Inspection Report and required permit. We were able to determine which permit pertains to this project in the Accela database.	1
Inspection Report was blank and required permit was not found in the file or Accela database.	1
File was completely empty.	1
	<b>32</b>

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- In accordance with Municipal Code 18.02.103.7.1 – Prescribed Fees, Weatherization assistance projects are exempt from permit fees. During our testing of the 41 files, we identified thirteen (13) files that contained contractor invoices which included a permit fee. These permit fees should have been waived and not charged on the contractor's invoices. The total of these permit fees is \$1,085.00.
- It should be noted that inspections are still required.

The following table summarizes permit fees charged on contractor invoices:

File #	Fee Amount
5	\$ 72.00
7	\$ 144.00
11	\$ 144.00
12	\$ 72.00
13	\$ 72.00
14	\$ 72.00
15	\$ 72.00
16	\$ 72.00
17	\$ 72.00
32	\$ 73.00
33	\$ 73.00
36	\$ 72.00
37	\$ 75.00
<b>Total</b>	<b>\$ 1,085.00</b>

**Recommendation**

Management should implement internal controls to ensure Inspection Reports are obtained when permits are required. In addition, management should ensure that permit fees are not charged to the program by the contractors, in accordance with Municipal Code 18.02.103.7.1 – Prescribed Fees for the Weatherization Assistance Program.

Management should consult with Engineering & Construction Management on amending the current City Ordinance to incorporate the waiver of fees for the weatherization program while maintaining the integrity of the permit process.



**Management's Response**

There are two types of final inspections done on weatherized homes: 1) City Building and Safety – done by the City Building inspectors; and 2) Final Inspections by Weatherization staff to verify that the authorized weatherization measures have been installed and installed correctly. Beginning in October, Management implemented a final inspection request form that requires that the necessary permits have been pulled and have passed City inspection before the Weatherization final inspection is done. Management also implemented a final inspection certification form to be signed by the Inspector. In order for the contractor to be paid, the certification, the work order, and proof of permit must be attached to the invoice and each invoice is reviewed and approved by both the Weatherization Coordinator and the Director.

The Weatherization Assistance Program was previously unaware of the weatherization waiver for permit fees. Since the Weatherization grant requires that all work done meet applicable local codes and ordinances, Weatherization contractors have been paying Building and Safety for permits. These are, however, 100% reimbursed to the Contractors in the payment process.

Weatherization Assistance Program will consider an Amendment to the ordinance to allow the City to cover its cost in the permit program.

**Responsible Party**

Jane Tomchik, Weatherization Coordinator

**Implementation Date**

Completed.

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**Finding 4**

**Approval Process**

As required by the Texas Department of Housing and Community Affairs (TDHCA) Contract Number 16090000704 section 13.A Record Keeping Requirements which states, "Subrecipient shall comply with the record keeping requirements set forth at 10 C.F.R. §440.24 and with additional record keeping requirements as specified by Department."

Based on our review, 4 out of 41 (9.76%) project files received a "pass" score and the remaining 37 files (90.24%) received a "fail" score. There were several discrepancies identified in each project file that contributed to the calculated score.

	Count	%
Pass	4	9.76%
Fail	37	90.24%
Total	41	100.00%

A listing of the discrepancies identified is presented below.

Number	Description	Instances
1.	Project files did not contain a DCHD Work Order that could be identified as approved.	41
2.	Project files did not contain a signed Homeowner Work Order Agreement form.	35
3.	Project files contained DCHD Work Orders that were not calculated correctly. Either individual line items could not be recalculated accurately to match line total or the overall work order totals differed from our recalculations.	15
4.	Project files did not contain a completed DCHD Work Order in the project file.	5
5.	Project files contained a signed Homeowner Work Order Agreement form where the date on the form was closer to the invoice date instead of right after the DCHD work order date. The disparity in dates indicates the possibility of the Homeowner Agreement form was signed after work was completed.	3
6.	Project file contained a signed Homeowner Work Order Agreement form that was dated one day prior to the date on the DCHD Work Order date.	1

**Recommendation**

Management should implement internal controls to ensure the approval process which includes approval of work orders are properly documented and support the work to be performed.

**Management's Response**

Management began implementing new procedures in November to address the approval process. Every work order requires the following documentation:

1. Work order match with invoice.
2. Certification by client and inspector re: completion of the work.
3. Notarized certification of bills paid.
4. Notarized certification of release of lien.

The request for payment is reviewed and approved by the Weatherization Coordinator and the Director.

**Responsible Party**

Jane Tomchik, Weatherization Coordinator and William Lilly, Director

**Implementation Date**

Completed.



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**Finding 5**

**Payment Process**

As required by the Texas Department of Housing and Community Affairs (TDHCA) Contract Number 16090000704 section 13.A and 13.B Record Keeping Requirements and section 26 A. which states,

- 13.A. Subrecipient shall comply with the record keeping requirements set forth at 10 C.F.R. §440.24 and with additional record keeping requirements as specified by Department.
- 13.B. For each dwelling unit weatherized with funds received from WAP under this Contract, Subrecipient shall maintain a file containing the following information...(refer to number 1-20 of section 13.B)
- 26 A. Prevention of Fraud Waste and Abuse of the Grant Agreement states, "Subrecipient shall establish, maintain, and utilize control systems and procedures sufficient to prevent, detect and correct incidents of waste, fraud and abuse in the WAP and to provide for the proper and effective management of all program and fiscal activities funded by this Contract. Subrecipient's internal control systems and all transactions and other significant events must be clearly documented and the documentation made readily available for review by department."

Based on our review, four out of 41 (9.76%) project files received a "pass" score and the remaining 37 files (90.24%) received a "fail" score. There were several discrepancies discovered in each project file that contributed to the calculated score.

	Count	%
Pass	4	9.76%
Fail	37	90.24%
Total	41	100.0%

The following are some of the examples of the discrepancies that were identified in the testing of the payment process:

Number	Description	Instances
1.	Invoices did not equal the work order totals.	37
2.	Files did not have a Final Inspection Report Packet in the file.	35
3.	Files did not have an invoice in the file.	10
4.	Files had a Final Inspection Report packet in the file but the packet was not complete with evidence of a review.	6
5.	Invoices were not totaled correctly.	3
6.	Checks did not match the invoice totals.	3
7.	A check for \$600.00 was found in a file. This check is dated 9/28/2010 and has gone stale. (90 day void has passed).	1

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**Recommendation**

Management needs to ensure that internal controls over expenditures are strengthened to ensure that expenditures made to contractors are valid and properly authorized.

**Management's Response**

1. Beginning November 1, Management has required that all invoices match the work orders or they have not been paid.
2. A new work order template with protected formulas has been created and implemented.
3. A final inspection certification signed by the inspector is now required for all invoice payments together with a signed final Blower Door test and a completed and signed Building Weatherization Report.
4. Contractors are required to certify responsibility for payment of all subcontractors and vendors and this is notarized.
5. All requests for payment are reviewed and approved by both the Weatherization Coordinator and the Department Director.

**Responsible Party**

Jane Tomchik, Weatherization Coordinator

**Implementation Date**

Completed



**Finding 6**

**Safeguarding of Assets**

As required by the Texas Department of Housing and Community Affairs (TDHCA) Contract Number 16090000704 Section 26 A. Prevention of Fraud Waste and Abuse which states,

“Subrecipient shall establish, maintain, and utilize control systems and procedures sufficient to prevent, detect and correct incidents of waste, fraud and abuse in the WAP and to provide for the proper and effective management of all program and fiscal activities funded by this Contract. Subrecipient’s internal control systems and all transactions and other significant events must be clearly documented and the documentation made readily available for review by department.”

Attachment A of the Grant Agreement imposes a \$6,500.00 limitation unless prior approval is obtained from TDHCA.

We identified 18 properties which had Weatherization Assistance Program (WAP) expenditures over the \$6,500.00 limit. The 18 properties, had expenditures totaling \$126,182.47. We selected five payments for review of the supporting documentation. The five properties selected totaled \$35,269.59.

The five project expenditures reviewed did not support the following:

- The five projects violated the \$6,500.00 WAP limitation.
- The costs identified as Health and Safety were insufficient to justify the projects exceeding the \$6,500.00 WAP limitation. We identified \$410.00 in expenditures listed as Health and Safety charges.
- All five projects contained inappropriate Work Orders which were either blank or not properly completed.
- All five project’s invoices contained Building Permit charges which were waived by El Paso Municipal Code 18.02.103.7.1 – Prescribed Fees.

**Recommendation**

Management needs to ensure that expenditures are within the \$6,500.00 limit unless there is prior written approval from the Texas Department of Housing and Community Affairs.



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**Management's Response**

1. The State has clarified that the \$6,500.00 maximum weatherization is an average across the state but has requested that we obtain prior approval if the total will exceed \$7,500.00. Health and Safety is allowed up to an average of 20% more.
2. Management is in the process of a "health and safety" audit to correct inappropriate allocations to weatherization vs. health and safety costs so many of the exceeded units may not be an issue when this is corrected.
3. (Please see previous responses defining Management efforts to ensure accuracy and accountability.)

**Responsible Party**

Jane Tomchik, Weatherization Coordinator

**Implementation Date**

Health and Safety Audit to be completed by March 1, 2011.

### ***INHERENT LIMITATIONS***

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

### ***CONCLUSION***

We have concluded work on the audit of the City of El Paso's Weatherization Assistance Program (WAP). In accordance with Generally Accepted Government Auditing Standards, we are required to conclude whether the audit objectives of the audit were met. Based on our audit work, we have determined the following:

1. The City of El Paso's WAP is currently not meeting the requirements established by its contract with Texas Department of Housing and Community Affairs.
2. The City of El Paso's WAP needs to improve its processes in order to meet the documentation requirements established by its own policies and procedures.
3. The City of El Paso's WAP is in need of improving its internal control environment in order to identify any instances of Fraud, Waste, and Abuse.

In addition to the above mentioned deficiencies, we have a concern over the appropriateness of the payments made to contractors as of November 17, 2010. There is a substantial risk that the funding and cognizant agencies of the Weatherization Assistance Program may consider payments as of November 17, 2010 as unallowable expenditures. The WAP is a federal grant funded by the American Recovery and Reinvestment Act (ARRA).

We wish to thank the Director of the City of El Paso's Department of Community and Human Development for his assistance in the completion of this audit. His honesty, openness, and willingness to provide information were instrumental in the completion of this audit.



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